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FM AMEMBASSY HARARE
TO RUCNSAD/SOUTHERN AFRICAN DEVELOPMENT COMMUNITY PRIORITY
RUEHC/SECSTATE WASHDC PRIORITY 1162
INFO RUCNSAD/SOUTHERN AFRICAN DEVELOPMENT COMMUNITY
RUEHUJA/AMEMBASSY ABUJA 1483
RUEHAR/AMEMBASSY ACCRA 1339
RUEHDS/AMEMBASSY ADDIS ABABA 1487
RUEHBY/AMEMBASSY CANBERRA 0748
RUEHDK/AMEMBASSY DAKAR 1113
RUEHKM/AMEMBASSY KAMPALA 1542
RUEHNR/AMEMBASSY NAIROBI 3939
RUEHFR/AMEMBASSY PARIS 1310
RUEHRO/AMEMBASSY ROME 1966
RUEHBS/USEU BRUSSELS
RUEHGV/USMISSION GENEVA 0650
RHEHAAA/NSC WASHDC
RUCNDT/USMISSION USUN NEW YORK 1704
RUEKJCS/JOINT STAFF WASHDC
RUEHC/DEPT OF LABOR WASHDC
RUEATRS/DEPT OF TREASURY WASHDC
RHEFDIA/DIA WASHDC//DHO-7//
RUCPDO/DEPT OF COMMERCE WASHDC
RUFOADA/JAC MOLESWORTH RAF MOLESWORTH UK//DOOC/ECMO/CC/DAO/DOB/DOI//
RUEPGBA/CDR USEUCOM INTEL VAIHINGEN GE//ECJ23-CH/ECJ5M//

C O N F I D E N T I A L SECTION 01 OF 02 HARARE 000154

SIPDIS

SIPDIS

AF/S FOR S. HILL
NSC FOR SENIOR AFRICA DIRECTOR B. PITTMAN
STATE PASS TO USAID FOR M. COPSON AND E.LOKEN
TREASURY FOR J. RALYEA AND T.RAND
COMMERCE FOR BECKY ERKUL
ADDIS ABABA FOR USAU
ADDIS ABABA FOR ACSS

E.O. 12958: DECL: 01/12/2016
TAGS: [ECON](#) [ETRD](#) [PGOV](#) [ZI](#) [CH](#)
SUBJECT: COPING IN ZIMBABWE'S MANUFACTURING SECTOR

Classified By: Ambassador Christopher Dell under Section 1.4 b/d

Summary

¶1. (SBU) Wilson International, a world class manufacturer of billiard tables and bedroom furniture, has become a low-cost outsourcer for a South African manufacturer and has also "twinned" creatively with Zimbabwean importers on forex deals in order to survive in Zimbabwe's harsh business climate. Its local business savvy, however, has proved little help in facing down competition from China-based manufacturers who have copied the company's designs and deeply undercut its prices in the company's export markets, including the U.S. End Summary

Furniture Manufacturer Holding Its Own With Exports

¶2. (SBU) Jim Wilson, Managing Director of privately owned Wilson International, described to econoff on January 26 his company's efforts to survive Zimbabwe's harsh business climate. The company's three factories, which employ about 900 workers, manufacture billiard tables for export to the U.S. and bedroom furniture for the international hotel market and for the South African retail trade. The billiard tables have been recognized internationally as among the best in the world. Wilson said both the billiard tables and furniture

enter the U.S. duty free under the Generalized System of Preferences.

13. (SBU) Wilson said GOZ policies have been the biggest threat to his company's survival. He explained that Wilson International is, in effect, taxed twice) once by the Zimbabwe Revenue Authority, and again by the Reserve Bank of Zimbabwe (RBZ). The RBZ requires exporters to relinquish 32.5 percent of export proceeds to the RBZ at the official exchange rate (N.B. the official rate has been fixed at Z\$250:US\$ for the past eight months while the parallel exchange rate is about Z\$7,500:US\$). Furthermore, and most challenging for an export-only oriented company like Wilson International, the RBZ liquidates a company's remaining export proceeds at the official exchange rate if it is unable to repatriate the proceeds within 90 days of receipt.

14. (SBU) Wilson said his company's first step to ensure its survival as an exporter was to enter into "toll manufacturing" with a South African company. Under this arrangement, the South African company outsources its manufacturing to Wilson and provides all raw material for production at no cost or duty. Wilson International then exports the final manufactured product to the South African company, charging a unit cost for labor, overhead and profit. According to the Managing Director, the arrangement reduces the RBZ's take of the company's earnings by about half.

15. (SBU) In addition, Wilson said his company trades its excess forex at the parallel exchange rate in carefully constructed "twinning arrangements." The company imports

HARARE 00000154 002 OF 002

another company's raw material requirements and sells the raw materials onward to the "twinning" company at parallel market prices. Wilson admitted he is "sailing close to the wind" on the legality of such deals.

But "Ruthless" Chinese Competition Threatens Survival

16. (SBU) Addressing day-to-day business, Wilson said his company had recently secured a contract to outfit a 300-bedroom hotel in Egypt. Despite a steady stream of such good contracts, however, the company was still smarting over the loss in 2003 of a major tender in the U.S. for a 1300-bedroom hotel due to unacceptably high political risk. Zimbabwe's internal situation continued to cast a pall over business with the U.S.

17. (SBU) In this context, Wilson noted, the onslaught of "ruthless" competition from China has emerged as the latest threat to his company. China-based manufacturers have imported Wilson's furniture from South Africa, copied the designs to the last detail, and undercut the company both in South Africa and in the U.S. with prices that, in some cases, are below the cost of inputs in these markets.

Comment

18. (C) In many respects, the story of Wilson International is the story of Zimbabwean business in general. At one time, this country had numerous world class manufacturers. Those numbers have dwindled as the companies have struggled to survive the government corruption and mismanagement that have led to Zimbabwe's economic collapse. The country's increasing isolation adds to the obstacles as international investment flows elsewhere and as competitors take advantage of the country's travails to seize market share from Zimbabwean companies. Wilson International has had to be creative to survive this long and has continued to produce high quality products. However, its long-term future will remain in doubt as long as the GOZ continues its current

economic policies.
DELL